



## Government Operations

For Federal Workers:

# Pay-for-Performance Test Weighed by Senate Panel

Seeking to head off a Reagan administration move to link the pay and job security of federal employees more tightly to job performance, the Senate Governmental Affairs Subcommittee on Civil Service is expected to approve an alternative plan.

The plan, introduced by Subcommittee Chairman Ted Stevens, R-Alaska, would establish a 3½-year demonstration pay-for-performance system for 150,000 federal workers. It is designed to avert regulations proposed by the Office of Personnel Management (OPM) that would cover 1.4 million white-collar workers.

The pilot plan would be attached to a bill (S 958) making changes in the existing merit pay program affecting workers in General Schedule (GS) grades 13-15, and in the Senior Executive Service bonus program.

During the week of Sept. 12, the subcommittee was polling its members before sending the bill to the full committee. The full committee is expected to mark up the measure by the end of the month.

The OPM regulations were originally scheduled to take effect Aug. 15, but Congress postponed the effective date to Oct. 15 in a rider to the fiscal 1984 appropriations bill for the Department of Transportation and related agencies that was cleared Aug. 3. (*Weekly Report* p. 1605)

Stevens hopes to work out a compromise acceptable to both sides before the new deadline arrives.

## OPM Objections

OPM objects to the Stevens plan for two reasons.

First, according to Director Donald J. Devine, a demonstration project would create a two-track system of pay, with one group under the general schedule system based primarily on seniority and one under pay-for-performance. Such a system, Devine said,

—By Robert Rothman

would invite "invidious comparisons" between the two groups.

More importantly, Stevens' plan would allow unions to participate in the design of the demonstration program. His plan requires 50 percent of the employees in the demonstration projects to be represented by a union, and gives unions the power to negotiate overall factors of the performance appraisal system, the total amount to be distributed under the financial reward system and any changes in reduction-in-force procedures. In addition, the plan requires agency heads to consult with employee representatives in agencies not represented by unions.



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Office of Personnel Management

Devine calls union participation a "dangerous precedent," adding that the setting of performance appraisals is a management decision.

On the other hand, the public employee unions strongly endorse the Stevens plan. According to Jerry Klepner of the National Treasury Employees Union, private sector surveys of similar pay-for-performance systems show that, "where there is a union, and the union did not fully participate, the procedures fail."

The issue of union participation is likely to be a major sticking point in attempts to reach a compromise on

the pay-for-performance standards. Devine has been attempting to enlist support for his position from members who have problems with the merit pay system as it is now constituted, but who share his concern about the role of unions.

## Background

The federal government has been granting raises for some of its employees on a pay-for-performance basis since 1978. The Civil Service Reform Act of that year established a merit pay system for 100,000 managers in GS grades 13-15. (*1978 Almanac* p. 818)

On Sept. 12, OPM gave agencies the authority to issue merit pay raises on Oct. 1. Under terms of the fiscal 1984 congressional budget resolution and President Reagan's Aug. 31 pay raise proposal, other federal workers would receive pay raises Jan. 1. The budget resolution recommended and the House Post Office and Civil Ser-

vice Committee approved a 4 percent raise, but Reagan requested only a 3.5 percent hike. The Senate committee has not yet acted.

The record of the merit pay system since 1978 has been spotty at best. Devine concedes that the system worked poorly its first year, attributing its problems to the relatively small amount of money available for merit pay increases. Devine said the system has worked well since then, but the first year's experience "left a bad taste in people's mouths."

Devine believes the merit pay system should be extended throughout

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the federal work force. "We've got a system," Devine said, "that doesn't give positive incentives to do good work."

Others argue that the merit pay system has been a failure. Lisa Carlson, president of the Professional Managers Association, which represents employees now under merit pay, said the system "is based on the belief that people are withholding performance" and need an incentive to perform, a belief she calls a "fallacy."

Federal worker unions also see a danger in the expansion of the merit pay system. Kenneth T. Blaylock, president of the American Federation of Government Employees (AFGE), the largest federal employee union, said, "We are convinced that OPM, with the blessing of the Reagan administration, is attempting to replace the civil service system with one of political patronage. And that, as we have learned from history, is no way to run a government." (*Background, Weekly Report p. 836*)

Devine rejects Blaylock's contention as a "red herring, not a real issue." Noting that only .15 percent of the federal work force are political appointees, Devine added, "You're not going to politicize typists and machine operators."

### Merit Pay Criticism

Those under the merit pay system now complain about the way it has worked. Specifically, Carlson notes three problems with the implementation of the system.

First, she said, the merit pay pool structure "has got to go." That structure has led to situations where people receiving the same rating have earned vastly different merit bonuses, since the total available for bonuses is divided among outstanding performers within each unit of an agency. If one unit has several high performers, each receives a relatively small piece of the pool; on the other hand, if a unit has only one high performer, he or she would receive the entire pool.

Second, in certain cases, both managers and their subordinates are under merit pay, and thus are part of the same pool. This could create a conflict of interest, Carlson noted, because a manager rating a subordinate knows that they compete for the same merit dollars.

The third problem Carlson cited is that employees under the merit system have no guarantee they will receive as big an increase as general

schedule workers, and could in fact receive less.

To deal with these problems, Rep. Frank R. Wolf, R-Va., and Sens. Paul S. Trible Jr., R-Va., and John W. Warner, R-Va., introduced legislation earlier this year intended to reform the merit pay system. Their bills (HR 1841, S 958) would establish, for a five-year period, a standardized system with five possible ratings — unsuccessful, minimally successful, fully successful, highly successful and outstanding. Only those who rate fully successful or better would receive the pay raise they would have received under the general schedule; those who rate below fully successful would receive no increase.

This legislation has become the vehicle for the Stevens demonstration plan. Stevens' proposal includes most of the Wolf-Trible-Warner changes, but adds others, including cash bonuses for managers who attain an "outstanding" rating, and a six-month review for those rated just below the level for a merit increase.

Wolf worries that controversial provisions like the pay-for-performance demonstration project for an additional 150,000 workers might jeopardize the changes he wants to make in the existing merit pay system. "I would have preferred that the merit pay bill stayed as it was," Wolf said.

### OPM Regulations

While Congress has been looking at legislation changing the existing system, OPM has been seeking to extend merit pay throughout the federal government work force.

On March 30, the agency proposed regulations to do so, provoking a storm of controversy. Rep. Patricia Schroeder, D-Colo., chairman of the House Post Office Committee's Civil Service Subcommittee, introduced a bill (HR 2449) to block the regulations.

On May 11 the full Post Office Committee voted 17-4 to instruct the House Appropriations Treasury, Postal Service Subcommittee to block the regulations, and the subcommittee agreed, adopting an amendment offered by Steny H. Hoyer, D-Md. But for unrelated reasons, the full House defeated the Treasury, Postal Service appropriations bill (HR 3191) June 8. (*Weekly Report p. 1147*)

The House in late May attached language to a supplemental fiscal 1983 appropriations bill (HR 3069) prohibiting the use of funds to implement

the regulations, and the Senate threatened to follow suit in June. The administration then agreed to delay implementation temporarily. (*Weekly Report p. 1119*)

OPM proposed a new set of regulations July 14. The new regulations addressed some of the concerns about the original proposals; for example, the July 14 proposal gave federal employees the right to ask for a reconsideration of a performance rating and tightened the definitions of rating levels to remove ambiguity.

But the revisions did not go far enough to satisfy some critics. Concerned that the regulations would go into effect while Congress was in recess, Sen. Charles McC. Mathias Jr., R-Md., successfully offered an amendment to the fiscal 1984 transportation appropriations bill (HR 3329 — PL 98-78), delaying implementation of the regulations until Oct. 15. (*Weekly Report p. 1605*)

### Pay-for-Performance Outlook

During the August recess, the administration stepped up its campaign on behalf of pay-for-performance. In his weekly radio address Aug. 20, President Reagan endorsed the proposal.

"In recent weeks," Reagan said, "there's been a lot of talk about my call for merit pay to reward outstanding teachers in America's schools. Well, I think the same principle should apply to the federal government itself."

The unions also have firmed their opposition. A spokesman for the American Federation of Government Employees called the regulations "proposals based on theories rather than practice." The union has thrown its support behind the Stevens plan.

The House Post Office and Civil Service Committee plans no action on OPM's pay-for-performance regulations, preferring to wait until the Senate acts. If the Senate fails to act by the time the regulations go into effect, it is possible a House member may move to block implementation of the regulations, probably by an amendment to a regular appropriations bill or to a continuing fiscal 1984 appropriations resolution for agencies still lacking regular appropriations by the time the new fiscal year begins Oct. 1.

If that happens, an OPM spokesman hinted, the agency may issue a new set of regulations. "There should be a regulatory, not a legislative solution," the spokesman said. ■